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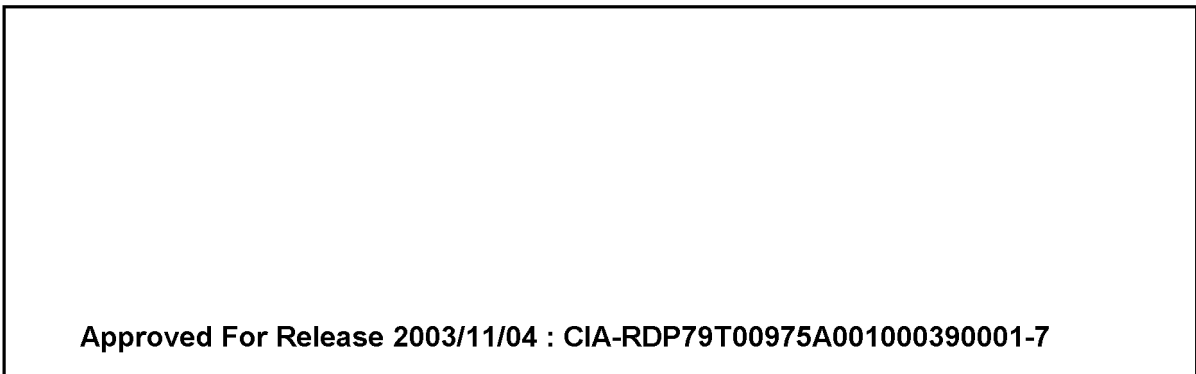
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GENERAL

1. East German trade developments with Egypt reported:

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The American Embassy in Cairo reports that the East German trade delegation now in Egypt is authorized to conclude a barter and payments agreement for up to \$11,000,000 worth of goods. Under the proposed agreement, Egyptian cotton would be exchanged for sugar, chemical fertilizers, and railway cars.

Although the East German press has strongly emphasized the "official character" of the mission, an official of the Egyptian Foreign Ministry states that Cairo has no intention of recognizing the East German Government.

Comment: The value of the authorized exchange is far less than the \$60,000,000 to \$100,000,000 exchange offered the Egyptians by the West Germans. The West German negotiations, however, apparently have broken down.

Egypt's urgent need to sell cotton will tempt Cairo to agree to a reasonable East German offer. East Germany is short of cotton; nevertheless, political motives may also be assumed in its approach.

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FAR EAST

3. Japan proposes tripartite talks on Far Eastern problems:

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Japanese Foreign Minister Okazaki has proposed, at the request of Prime Minister Yoshida, that the United States, Britain and Japan hold discussions regarding such issues

as the deneutralization of Formosa, a blockade of China, and bombing of Manchuria.

Following this proposal to Ambassador Murphy, Okazaki reviewed the difficulties which Japan faced during the last war in blockading the China coast and in occupying China. He also discounted Chinese Nationalist military and political capabilities.

Comment: Many of Japan's political leaders and most of the press have expressed fear over the consequences to Japan of a more vigorous American policy toward Communist China. Japanese officials have little confidence in the future of the Formosa regime and are convinced of the inevitability of relations with Communist China. On numerous occasions they have suggested that Chinese subservience to the Kremlin could be subverted through "democratic infiltration" by the Japanese.

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4. Chinese Nationalist military mission may visit Korea:

25X1A [redacted] Ambassador Briggs has learned from the Chinese Nationalist Embassy in Pusan that a military mission plans to visit Korea in about ten days at the invitation of the South

Korean Air Force Chief of Staff. [redacted]

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Comment: The Korean press has been speculating, during the past week, on an alleged imminent visit of such a mission. South Korean officials have declined comment and US Eighth Army Headquarters apparently had no previous knowledge of the plan.

The visit would be certain to arouse new speculation over the possible use of Nationalist troops in Korea, despite President Rhee's known opposition to such a move.

5. Hong Kong governor does not expect increased Communist pressure:

25X1A [redacted] The Governor of Hong Kong informed the American Consul General that he does not anticipate increased Chinese Communist pressure on the colony as a result of the Formosa deneutralization order.

Although he expects difficulties to arise from the interception of British shipping, he regards the Formosa decision as less likely to result in expanded hostilities than other methods of exerting pressure on Communist China. He pointed out that most British vessels are now going around Formosa.

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SOUTHEAST ASIA

6. French willing to accept American observers from Korea in Indochina:

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French High Commissioner Letourneau believes that arrangements can be made for a visit to Indochina by an observer mission from Korea consisting of American officers plus one or more South Korean officers.

The French High Command has already given "general agreement" to sending a mission from Indochina to Korea to observe American methods for training South Korean troops.

Comment: Ambassador Dunn in Paris believes that France would oppose direct American participation in the training of the proposed additional Vietnamese battalions.

Letourneau has admitted to Ambassador Heath in Saigon that United States methods of training South Korean officers and troops may be more efficient than French methods for training Indochinese troops, and favors studying American methods.

7. Bao Dai wishes to observe training methods in Korea:

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Bao Dai has expressed a strong desire to visit Korea, according to the American Ambassador in Saigon. The Vietnamese chief of state wishes to be part of the proposed French-Vietnamese mission to observe American training methods there.

The Ambassador comments that a Korean visit, if permitted by the French, might add to Bao Dai's prestige and would perhaps stimulate his interest in promoting the development of a Vietnamese national army.

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Comment: Bao Dai's major weakness as chief of state has been his tendency to isolate himself from major problems. Both American and French officials have often urged him to assume a more active role and exercise his considerable influence.

8. Peiping attempting to create separatist movement among Southeast Asia border tribes:

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The American Ambassador to Thailand reports that according to recent Chinese Communist news dispatches from Kunming a "Thai nationality autonomous area" has been established in southern Yunnan. The new "People's Government" for the area is pledged to guide the Thai peoples and other minorities in achieving autonomy.

The Ambassador comments that this development indicates Peiping is taking practical steps to control the border tribes and suggests an intention to create disaffection among these peoples living in Burma, Thailand and Indochina.

Comment: During the past few years, the Chinese Communists have also been engaged in stimulating nationalistic feelings among the Shans and Kachins, who live on both sides of the Burmese border farther to the north of the Thais.

NEAR EAST - AFRICA

9. Iranian tribal clashes assume serious proportions:

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The Iranian Air Force Chief of Staff informed the American Naval Attache in Tehran on 13 February that air units have been dispatched to southwest Iran to reinforce the army units engaging Bakhtiari tribesmen in the mountains northeast of Ahwaz.

First reports from the extensive skirmish suggested that the tribesmen were holding their own but the Air Force Chief of Staff believes the situation can be controlled.



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The Iranian armed forces are considered capable of controlling local tribal disturbances, but might not be able to handle a concerted tribal effort.

10. Egypt to join Arabs in case of Israeli aggression:

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The Egyptian delegate to the UN Mixed Armistice Commission has told its chairman that Egypt will move against Israel immediately if current incidents lead to involvement of troops of the Jordanian Arab Legion.

The commission chairman recently observed a "marked improvement" in the quality of Egyptian troops on the Israeli frontier as well as the presence of German officers.

Comment: Despite reports of an Egyptian inclination to reach a settlement with Israel, observers in the area believe that any major military move by Israel can be expected to produce a united Arab front.

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WESTERN EUROPE

12. West Germany opposes all French EDC treaty protocols.

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Chancellor Adenauer states that all the French-proposed EDC treaty protocols are unacceptable since they would destroy the European character of the treaty and discriminate against West Germany.

The texts, he says, are not consistent with Premier Mayer's prior announcement that the substance of the treaty would not be altered. Even if the French Government is willing to reduce its present demands, Bundestag consideration of both the Bonn and Paris treaties might now be delayed.

American officials in Bonn comment that the nature of the protocols will probably strengthen the present inclination of the West German Constitutional Court to reject Adenauer's petition for a ruling on the treaties' legality.

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Comment: Adenauer had stated recently that the Bundestag would act on the treaties by mid-March at the latest.

Should the court refuse on 20 February to take action on the Chancellor's petition, prospects for eventual favorable court action will be weakened.

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